

13 November 2018 | 1QFY19 Results Review

Dialog Group Berhad

No surprises

INVESTMENT HIGHLIGHTS

- **Dialog Group Berhad's 1QFY19 normalised earnings grew by +16.3%yoy to RM114.6m**
- **1QFY19 earnings within expectations**
- **Tank farm business expanded by +14% to RM30.9m**
- **Maintain NEUTRAL with unchanged TP of RM3.24 per share**

Normalised earnings grew by +16.3%yoy. Dialog's 1QFY19 reported earnings contracted by -28.1%yoy to RM118.1m. However, after excluding the one-off gain from acquisition of a new subsidiary of RM65.6m in 1QFY18, the company's earnings excluding minority interest of RM114.6m during the quarter grew +16.3%yoy. Its 1QFY19 earnings were also within our estimates making up 24.3% of our full-year earnings forecasts respectively.

Malaysian operation remains solid. The revenue from the Malaysian operations declined -17%yoy due to reduced downstream activities, in particular its engineering, construction and fabrication works from various projects. However, the decline was partially offset by revenue from Langsat Terminals and higher revenue from upstream business as a result of higher oil price during the quarter. That said, net earnings from Malaysian operation grew +22%yoy attributable to the increased contributions from terminals and upstream activities.

Tank farm business continues to expand. Earnings from its tank farm business during the quarter by +14%yoy to RM30.9m. The upbeat contribution is a result of Pengerang LNG (Two) Sdn Bhd which achieved its commercial operations and received first commercial LNG cargo at its newly commissioned regasification terminal at Pengerang Deepwater Terminal in November 2017.

Focus on tank farms remains. Dialog's strategy is clear – immediate to long-term focus on tank farms. Pengerang Deepwater Terminal phase 1 is being expanded by 430,000m³ while construction of Phase 2 is now on track for with full completion scheduled in early 2019. The company also indicated that Phase 3 will be developed on approximately 300 acres of the land located next to Phase 2 within the Pengerang Deepwater Terminals with an initial investment cost of RM2.5b. Land reclamations and discussions with potential customers for Phase 3 have started. There is also a balance of approximately 500 acres available for future phases.

Maintain NEUTRAL

Maintain Target Price (TP): RM3.24

RETURN STATS	
Price (12 November 2018)	RM3.32
Target Price	RM3.24
Expected Share Price Return	-2.4%
Expected Dividend Yield	+0.8%
Expected Total Return	-1.6%

STOCK INFO	
KLCI	1,696.14
Bursa / Bloomberg	7277 / DLG MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,638.3
Market cap. (RM'm)	18,719.18
Price over NA	5.35x
52-wk price Range	RM2.26 – RM3.66
Beta (against KLCI)	1.02
3-mth Avg Daily Vol	12.9m
3-mth Avg Daily Value	RM44.3m
Major Shareholders (%)	
Ngau Boon Keat	20.03
Azam Utama	8.29
Kumpulan Wang Persaraan	8.22
Wide Synergy	7.84

Impact on earnings. No changes to earnings estimates.

Maintain NEUTRAL. We are maintaining our **NEUTRAL** recommendation on Dialog with an unchanged target price of **RM3.24** per share (four-year PER high). Our TP valuation is based on sum-of-parts method pegging a PER of 28x to its core businesses i.e: EPCC, Plant Maintenance, Specialist and Catalyst. As for centralized tankage facilities business, discounted cash flow is based on a discount rate of 8%.

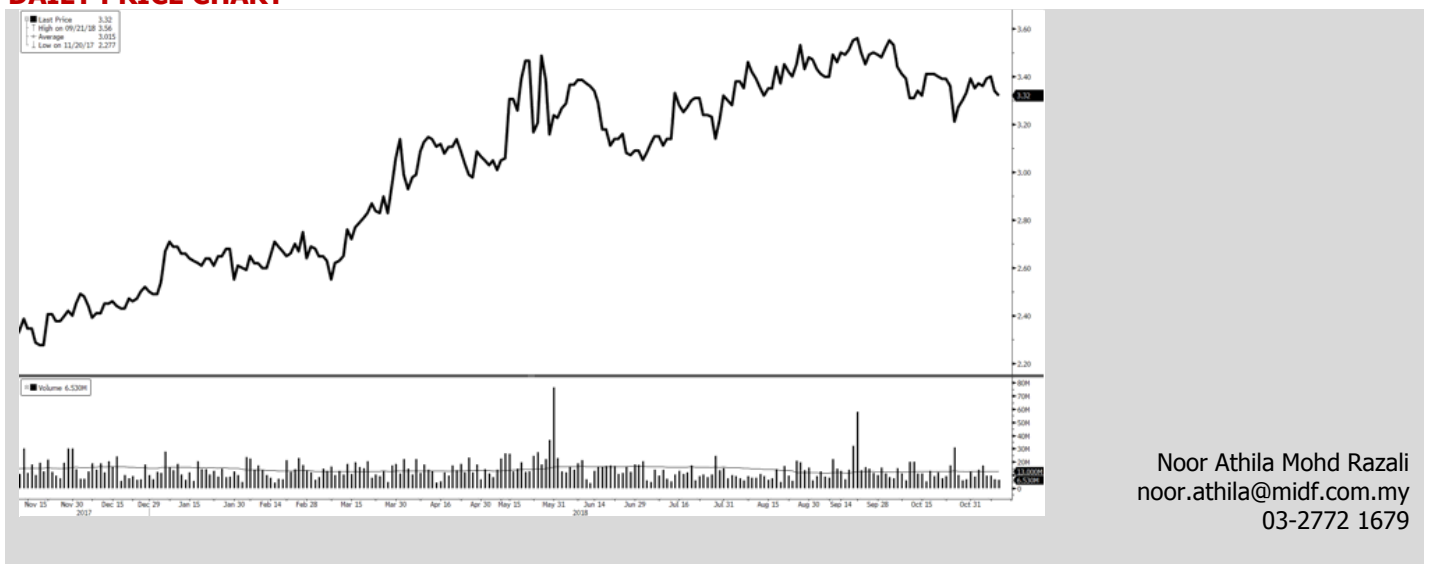


INVESTMENT STATISTICS

FYE Jun	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	2,390.0	3,392.9	3,110.6	4,050.0	4,201.0
EBIT (RM'm)	191.2	341.8	679.5	618.0	643.6
Pretax Profit (RM'm)	366.5	448.8	628.1	598.0	622.6
Net Profit (RM'm)	303.0	370.6	510.4	472.3	491.4
EPS (sen)	5.4	6.8	9.1	8.4	8.7
EPS growth (%)	-3.0	26.5	33.2	-7.5	4.0
PER (x)	61.8	48.8	36.6	25.3	26.2
Net Dividend (sen)	2.4	2.8	2.8	2.8	2.8
Net Dividend (%)	0.7	0.8	0.8	0.8	0.8

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

Table 1: Dialog's quarterly results summary

FYE June (RM m)	Quarterly Results				
	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
Revenue	778.66	607.13	690.89	13.80	(11.27)
Operating Expenses	(700.35)	(506.37)	(589.18)	16.35	(29.76)
Other Operating Income	26.47	30.33	17.95	(40.83)	(30.53)
Fair value gain on disposal of JV	65.59	-	-	nm	nm
JCE	27.10	31.39	30.92	(1.50)	8.27
Finance Costs	(11.11)	(13.64)	(11.99)	(12.14)	26.27
Profit Before Tax	186.36	148.83	138.59	(6.88)	15.79
Tax expense	(22.15)	(27.35)	(20.51)	(25.02)	(6.20)
Profit After Tax	164.21	121.48	118.08	(2.80)	(28.09)
Minority Interests	3.28	6.63	3.43	(48.22)	4.57
PATAMI	160.93	114.85	114.64	(0.18)	(28.76)
Normalised PATAMI	98.6	114.85	114.64	(0.18)	16.3
PBT Margin (%)	23.93	24.51	20.06	(4.45)	(3.87)
Tax Rate (%)	11.88	18.38	14.80	(3.58)	2.91
Net Margin (%)	20.67	18.92	16.59	(2.32)	(4.07)

Source: MIDFR, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.